

Solar Focus, Inc.

May 21, 2004

Mr. Ray Williamson
Arizona Corporation Commission
1300 W. Washington
Phoenix, AZ 85007

Re: Environmental Portfolio Standard (EPS), R14-2-1618

Dear Mr. Williamson:

Solar Focus would like to offer a few opinions regarding the future of the EPS in Arizona. As you will see, some of these opinions go beyond how future policy will affect our company. The proper question is how do we build a more secure, clean and reasonably priced energy infrastructure for the future. The concept of an EPS clearly has merit and this is evidenced by its broad support by almost all stakeholders. The crucial questions are how to implement it so that the most value is gained for some energy “premium” that might be charged directly or indirectly to the ratepayers.

The devil is often in the details and the suggestions below come from a sense of fairness and trying to build a process that allows all technologies available today to have a chance to participate in the EPS program. Some of these comments may lead to a process that is less advantageous for our company than the current policies, but there are clear problems with our current pace towards a sustainable energy future. This must be remedied. We’re offering these opinions as educated stakeholders in the energy scene in Arizona, and we are suggesting directions that should lead to a fair and well-balanced playing field for all renewable energy and energy efficiency products.

1. Regarding expanding the EPS program, we need to look at the EPS from the view of our grandchildren. To suggest that we can’t afford 1% of our energy expenditures to “work towards the future” is absolutely embarrassing. Five percent (5%) or more of what we are paying for our energy should be spent working on our strategic energy and (more broadly) human sustainability challenges. There is clear consensus that we need to change to our energy sources in the future. When are we going to get just a little bit serious about doing something about it?
 - a. One way to get serious is to look at the options and pick a near term goal for improved sustainability and agree that we are going to spend X% of energy utility revenues on heading that way. The ACC, the utilities and other private companies would use a process to sort thru the best options and simply put the best options into the energy rate base(s).
 - b. We must be careful not to build the process so only the traditional “central generation” perspective is used to implement such an approach. There is a lot of value to distributed generation, which the utilities implicitly recognize in their concerns about improving the transmission and distribution assets.

2. We can't let the solar industry and its substantial set aside that exists now to consume the vast majority of the resources toward achieving our broad energy goals. Perhaps some special consideration is needed for solar, but the program's set-asides today have slowed energy efficiency and renewable energy implementation to a crawl. We need a process that spends the bulk of the premium dollars on the most affordable projects.

Can the solar industry compete with the other RE technologies? Maybe, or maybe not. Because solar is Arizona's greatest renewable resource, perhaps some special incentives for it should remain, but not to the extent that it dramatically slows the implementation of renewable energy in the state.

3. We need a mechanism where a utility (or whoever the new EPS implementation authority might be) does not have a conflict of interest on pushing certain approaches. Getting direct EPS funds to buy assets with zero investment from their shareholders is a deal too good to be true. This also results in a slow renewable energy implementation rate, as the utilities themselves have pointed out. There is a subsidy point where the utilities (or any investor in any technology for that matter) will invest their own money into RE projects. We need to look at building a process that explores the RE investment problem from that direction. That is, the state will offer some of its "premium" dollars to those who want to invest, but we're not going to give that money away without some shared investment from the recipient.
4. We need a fair process for all renewable energy technologies AND energy efficiency efforts.
 - a. This includes solar air-conditioning efforts where solar equipment clearly reduces the electricity demand for the site host and meets the spirit of the EPS program.
 - b. By extension this should include solar daylighting. Those of us working more sophisticated solar efforts (PV, solar thermal, solar air-conditioning) may like to relegate that to another category, it is exactly the same as solar air conditioning. Both approaches meet the spirit of what we're all trying to achieve and both should have a place at the table.
 - c. Any renewable energy technology that reduces fossil fuel use in the state should get credit, even if it has nothing to do with electricity use reduction. For example solar thermal clearly reduces natural gas use and natural gas is an increasingly critical commodity for our state's and nation's energy security. Of course, direct thermal KWH's are NOT the same value as electrical KWH (it takes about 3 natural gas KWH's to make a KWH of electricity) and this needs to be reflected in the policy & EPS approach, but clearly there is value here in the spirit of the EPS. This approach can have value for other RE technologies as well. Biomass boilers, bio-fuel cogeneration, or even traditional cogeneration offers fossil fuel reduction and energy efficiency.

Summary

Implementing a policy and approach that includes the spirit of these comments is not easy. But neither is the goal we are setting out to achieve. Perhaps if the ACC sets an outline of what they want to achieve and indicate that the process needs to reward the approaches that offer the most progress toward our broad goals per premium dollar spent, it will be a strong foundation that will

would let stakeholders work out an equitable and proactive process that lets Arizona build the energy infrastructure we all know is needed for our children and grandchildren.